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SUBJECT: ATLANTIC CANADA ENERGY UPDATE: NEW BRUNSWICK AND  
NEWFOUNDLAND IN THE SPOTLIGHT

REF: HALIFAX 0032 AND PREVIOUS

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SUMMARY:  
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¶1. Irving Oil and Repsol made history on June 27 when their Canaport LNG terminal in Saint John, NB, received Canada's first shipment of LNG. In Newfoundland-Labrador, Premier Williams announced he had secured a Memorandum of Understanding to begin an extension of the offshore Hibernia oil field and energy companies are looking at conducting exploratory drilling offshore Labrador and the Laurentian Basin. In New Brunswick, the provincial energy minister is hoping Maine state legislators endorse the energy corridor concept between the two jurisdictions. Meanwhile, although the continuing cost of buying replacement power to compensate for the offline Point Lepreau nuclear station is presenting some fiscal challenges for the province, the minister has no worries over the impact that the sale of the federally-owned Atomic Energy Corporation Limited might have on the province's nuclear power industry. Finally, New Brunswick and Quebec will be looking at the possibility of expanding their energy relationship. END SUMMARY.

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Canaport LNG Terminal Receives First Shipment of Gas  
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¶2. On June 27 Canaport LNG Ltd. of Saint John, New Brunswick, marked a milestone when it received its first shipment of liquefied natural gas, the first time a tanker has delivered LNG in Canada for regasification. Canaport is owned by Irving Oil of Saint John (25%) and Repsol of Spain (75%). Repsol, as the chief operator of the project, provided the gas and the tanker. The facility is currently undergoing the startup process and once completed in early July, will start shipping natural gas to customers primarily in New England. The initial send-out capacity for the facility is one billion cubic feet of natural gas per day. An official ribbon-cutting ceremony for the terminal is scheduled to take place in September.

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Hibernia Extension Project to Proceed  
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¶3. Newfoundland-Labrador Premier Danny Williams announced on June 16 that his government had signed a Memorandum of Understanding with the owners of the Hibernia Offshore Project to develop the Hibernia South Extension. The province will take a 10 percent equity stake in the project, which could result in

an estimated \$C10 billion in revenue once the estimated 223 million barrels of recoverable oil is produced. To date, the original Hibernia field has produced 630 million barrels of oil, which have netted revenues of \$C1.9 billion for the province. Hibernia was the first project in the province's offshore, starting up in 1997. It is administered by the Hibernia Management and Development Co. Ltd., which includes ExxonMobil (33.125%), Chevron Canada (26.875%), Petro-Canada (20%), the federal government (8.9%), Murphy Oil (6.5%) and StatoilHydro (5%). Neither the federal government nor Murphy Oil has a stake in the Hibernia South development.

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Newfoundland-Labrador Energy Corporation Off and Running  
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¶4. Nalcor Corporation, the GoN-L's energy corporation, wrapped up its first annual general meeting in St. John's on June 26. Established by the provincial government in 2007, the new corporation got underway in earnest in late 2008 when it took over management of the existing hydro development at Churchill Falls Labrador, the proposed Lower Churchill Falls project, the Bull Arm heavy industrial fabrication site, Newfoundland-Labrador Hydro and the province's equity stakes in offshore oil projects including the newly-announced Hibernia South extension. According to documents presented at the meeting, the province has made a total investment of \$C160 million in these offshore interests: White Rose, where it has a 4.9% share, Hebron at 4.9% and Hibernia South where the province has 10%. In terms of future endeavors, Nalcor executives said the corporation is concentrating on developing the Lower Churchill project, as well as more investments in new oil and gas projects and wind energy.

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New Exploration Activity Offshore Newfoundland-Labrador  
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¶5. Husky Energy of Calgary and Chevron Canada are considering exploring the frontier area of the Labrador offshore. In 2008 the two companies teamed up to buy exploration licenses and made commitments to invest \$C170 million in exploration. The area is not a new one to offshore explorers. During the late 1970s and early 1980s, energy companies drilled 37 wells in the area, with promising results for natural gas. However, at that time oil was the preferred target, and development of the gas was put on hold. Now, with the increasing demand for natural gas and new technology for drilling in harsh climates, the industry is taking another look at the area. In other exploration news, ConocoPhillips Canada is hoping to sub-lease a rig to drill its first well in the Laurentian Basin off the south coast of Newfoundland. The Basin lies between Newfoundland-Labrador and Nova Scotia and could contain as much as 8-9 trillion cubic feet of natural gas, and 700 million barrels of oil.

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NB Energy Min Comments on the NB-Maine Energy Corridor  
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¶6. In a recent trip to New Brunswick, Consul General discussed the energy corridor proposal with provincial Energy Minister Jack Keir. NB Premier Shawn Graham and Maine Governor John Baldacci announced in March that the two jurisdictions would be exploring development of what they called the northeast energy corridor which would focus on delivery of energy supplies through New Brunswick and on to Maine. Since then, the idea has faced some opposition in Maine from those who believe that the corridor concept could prevent development of renewable energy projects in Maine. Others oppose the idea on the grounds that the State should not be entering into an agreement with the Province of New Brunswick due to Canada's opposition to the proposed LNG terminals on the Maine shores of Passamaquoddy Bay. In acknowledging these concerns, Keir said he realized that the

Maine State Legislature, which is reviewing the proposal, must determine if this project is in the best interest of the citizens of Maine.

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Lepreau Refit Presents Fiscal "Challenges" to GoNB  
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17. Bond rating agencies have said the C\$1.4 billion refurbishment project currently underway at New Brunswick's Point Lepreau Nuclear generation station is exposing the government to greater financial risk. Moody's Investor Services has cautioned that, with the project now some five to six months behind schedule, the C\$1 million cost per day to purchase replacement power is causing the province some "challenges." Provincial energy minister Jack Keir told the Consul General in early June that most of the complex parts of the project have been completed and he anticipates the work should now stay on schedule. The province got some good news at the end of June when a pair of new turbine rotors arrived at the plant, some eight months after they accidentally toppled into Saint John harbor. The 107-metric ton turbine rotors are designed to spin faster than the original rotors, an improvement which officials estimate could generate an additional C\$15 million worth of power each year.

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AECL Sale: No Adverse Effect for New Brunswick  
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18. NB Energy Minister Keir said the GoC's decision to sell Atomic Energy of Canada Limited's nuclear reactor business should not jeopardize the ongoing refurbishment of Point Lepreau. In fact, the minister described the announcement of the sale as good news since he believes the business would benefit from more stable sources of funding from the private sector. Keir is also confident that the change would not affect possible plans to build a second reactor at the Lepreau site. The minister reaffirmed the government's commitment to the potential construction of the new project. However, unlike the existing Lepreau station, neither the provincial government nor the provincially-owned NB Power would be involved in the construction of the project. Rather, it would be built by Team Candu, a consortium made up of AECL and private sector engineering firms. At present, Team Candu is still negotiating with would-be investors over complicated financial and legal arrangements that so far have not resulted in a firm commitment to proceed with the project.

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New Brunswick and Quebec Launch Power Talks  
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19. The New Brunswick Government is entering into discussions with the Province of Quebec with a view to developing partnerships in the energy sector. Officials from the two provinces, as well as representatives of NB Power and Hydro Quebec will be exploring opportunities for cooperation, particularly in the areas of accessibility, supply, transmission, market opportunities, and greenhouse-gas reduction. New Brunswick is already buying replacement power from Quebec to help offset the temporary shutdown of the Point Lepreau nuclear generation station, but the two provinces want to see if they can find other ways to cooperate. New Brunswick envisages having greater access to cheaper Quebec power while Quebec could use New Brunswick's transmission lines to send more power into New England.  
FOSTER